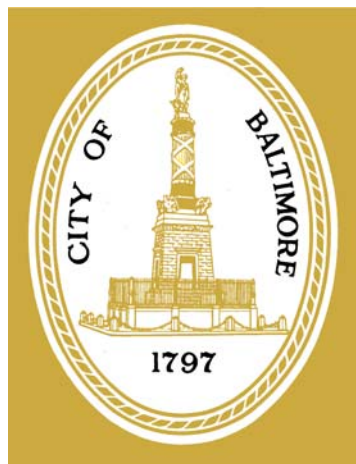


PERFORMANCE AUDIT REPORT

BALTIMORE CITY FIRE DEPARTMENT FIRE PREVENTION BUREAU

REVENUES GENERATED THROUGH INSPECTIONS AND PERMITS

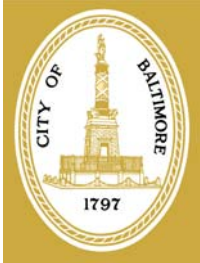
DECEMBER 2002



**City of Baltimore
Department of Audits**

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



DEPARTMENT OF AUDITS

YOVONDA D. BROOKS, CPA
City Auditor

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December 9, 2002

Honorable Joan M. Pratt, Comptroller
And Other Members of the
Board of Estimates
City of Baltimore

We conducted an audit of the procedures related to the revenue generated through inspections performed and permits issued by the Baltimore City Fire Department – Fire Prevention Bureau. Our audit focused on the policies and procedures used to conduct inspections, issue permits and collect related fees during the fiscal year ended June 30, 2001.

The objectives of our audit were to determine whether adequate internal accounting and administrative controls existed: (1) to ensure that appropriate fees were assessed and collected in accordance with applicable laws and regulations, and (2) to determine whether fee collections were adequately safeguarded, properly recorded, and deposited promptly.

As a result of our audit, we identified several weaknesses related to the policies and procedures for fire inspections and permits. We recommend that the Fire Prevention Bureau:

- Develop written policies and procedures that clearly define the Baltimore City Fire Department's mission, objectives and operational responsibilities concerning inspections and permits.
- Document its approval for waived permit fees.
- Segregate duties related to its procedures concerning fire inspection permits and fees.
- Monitor the status of expired permits using reports generated by the Mayor's Office of Information Technology from data input by the Fire Department.
- Reconcile fee collections recorded in the Fire Prevention Bureau's accounting records to revenue recorded in the City of Baltimore's accounting records.
- Convert from manual accounting records for permits to computerized spreadsheets or database files.

- Collect fees prior to performing fire inspections.
- Perform timely inspections upon receipt of appropriate fees.

We appreciate the cooperation and assistance provided by the Baltimore City Fire Department and the Department of Finance's Bureau of the Budget and Management Research while conducting this audit. Their cooperation was instrumental to the completion of this audit.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

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Background Information

Historical

The Baltimore City Fire Department-Fire Prevention Bureau (Bureau) is responsible for administering and enforcing the Fire Prevention Code of Baltimore City. The Fire Prevention Code is key to ensuring the public safety, health and welfare insofar as they are affected by conditions which cause fire or explosion and panic resulting therefrom; and in general, to secure safety to life and property from fire hazard incident to the occupancy and maintenance of structures or premises.

The Bureau's goal is to protect the lives and property of the citizens of Baltimore City through public education and code enforcement. The Bureau's public education programs consist of safety and career presentations in public and private schools, businesses and community organizations. The public education programs also consist of special projects such as the "Safety Trailer," the "Learn Not to Burn" Program, "Stop, Drop and Roll" picnic and the Industrial Fire Safety Seminar. The Bureau's Inspection and Code Enforcement Section is responsible for (1) the review of new sprinkler system and fire alarm plans, (2) testing and approval of fire protection systems, (3) inspections for verification of code compliance in homes, businesses, schools, hospitals and nursing homes, (4) issuing Fire Prevention Permits for required occupancies, and (5) investigation of citizens' complaints.

The City adopted, with modification, through Ordinance 723, the Building Official and Code Administration (BOCA) Basic Fire Prevention Code as the Fire Prevention Code of Baltimore City on June 29, 1982. Article 9 of the Baltimore City Code documents the Fire Prevention Code (Code). The Ordinance as enacted by the City empowers the Director of Finance to establish and annually review the fees charged for inspections and permits under this Code. The Director of Finance shall base these fees on the expenses incurred by the Bureau in processing permit applications and in conducting inspections. The Code sets forth about 100 different types of inspections and permits that can be obtained under the Code. A fee has been developed for each different type of inspection. Inspections are generally performed annually. The Bureau conducts all inspections and collects all fees under the permit provisions of the Code. Inspections and fee collections are continuous throughout the year. Bureau revenues from permits and inspections reported in the City's accounting records for fiscal year 2001 were \$585,663.

The *Managing for Success* Report to the Mayor issued in July 2000 by the Greater Baltimore Committee and Presidents' Roundtable (GBC) recommended that the Baltimore City Fire Department develop an information systems enhancement and automation plan for the entire Department. The GBC report identified that information technology and computer utilization was lacking throughout the Fire Department.

Operational

The Bureau is responsible for billing and collecting fees for all inspections and permits under the Code. The Code not only requires that all fees be collected prior to the issuance of the permits, but also at the time of or prior to the inspections. The Code also states that departmental records such as applications, permits and certificates issued, fees collected, reports of inspections, notices

and other orders be retained in the official records as long as the structure or activity, to which such records relate remains in existence unless otherwise provided by other regulations.

Audit Scope, Objectives and Methodology

We conducted an audit of the procedures related to the revenue generated through inspections performed and permits issued by the Baltimore City Fire Department-Fire Prevention Bureau. We focused on the revenue generated during the fiscal year ended June 30, 2001. Our audit was conducted in accordance with generally accepted *Government Auditing Standards* related to performance audits, issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of our audit were to determine whether adequate internal accounting and administrative controls existed: (1) to ensure that appropriate fees were assessed and collected in accordance with applicable laws and regulations, and (2) to determine whether fee collections were adequately safeguarded, properly recorded, and deposited promptly.

To accomplish our objectives, we obtained an understanding of the functions and activities performed by the Bureau related to the revenue generated through inspections and permits, including an understanding of applicable policies and procedures. As part of our audit, we spoke with various personnel of the Bureau, the Department of Finance's Bureau of Collections, and the Bureau of the Budget and Management Research. We also reviewed the Baltimore City Code sections related to inspections and permits. We performed tests of transactions and other information, including tests to determine the accuracy of billing amounts, timeliness of collections, whether applications were completed properly, and if deposits were properly recorded. Additionally, we reviewed expired permit data to determine its accuracy and impact on Bureau procedures.

Our audit findings and recommendations are detailed in the Findings and Recommendations section of this report. The response from the Baltimore City Fire Department is included as an appendix to this report.

Findings and Recommendations

Accounting and Administrative Controls Environment

Conclusion

The Bureau did not establish written policies and procedures that defined its objectives and operational responsibilities regarding the issuance of permits. Authorization for issuing fee-exempt permits was not documented. The Bureau did not maintain adequate segregation of duties related to its procedures concerning fire inspection permits and fees. The Bureau did not use available data recorded in City permit reports to monitor the status of expired permits. The Bureau's permit fee collection records were not reconciled to the City's accounting records. Accounting records maintained by the Bureau were prepared manually rather than using more efficient computerized methods. Fire inspections were performed prior to collecting fee payments. Some inspections were not completed timely following the receipt of inspection fee payments.

Finding #1

The Baltimore City Fire Department-Fire Prevention Bureau did not have written policies and procedures that defined its objectives and operational responsibilities regarding the issuance of fire inspection permits.

Analysis

The Bureau did not have written policies and procedures that defined its objectives and operational responsibilities regarding the issuance of fire inspection permits. The City's Administrative Manual requires that City organizations provide reasonable assurance that they adopt certain standards and follow adequate written policies and procedures. The Bureau did not have documentation describing its procedures related to scheduling of inspections, permit renewal notifications, collection of permit fees, permit fee waivers, and the maintenance of accounting records.

Recommendation

We recommend that the Bureau establish written policies and procedures that identify specific operational responsibilities for inspections and permits. We also recommend that the Bureau provide staff training to ensure that these policies and procedures are understood and applied by all appropriate staff.

Finding #2

The Baltimore City Fire Department-Fire Prevention Bureau did not document its authorization and justification for waived permit fees.

Analysis

The Bureau did not document its authorization and justification for waived permit fees. The City's fiscal year 2001 permit list reported 7,213 permits were issued. Of this total, 272 permits were determined to be exempt from payment. Exempted fees totaled \$44,035 during fiscal year 2001. The Bureau waived these fees, however, no written policy supporting the reasons for these waivers was provided.

Recommendation

We recommend that the Bureau document its approval for waived permit fees.

Finding #3

The Baltimore City Fire Department-Fire Prevention Bureau did not maintain adequate segregation of duties related to its procedures concerning fire inspection permits and fees.

Analysis

The Bureau did not maintain adequate segregation of duties related to its procedures concerning fire inspection permits and fees. Many of the crucial duties related to fire inspection permits and fees were the responsibility of one staff person. The duties of the Process Supervisor included: collecting inspection fees; maintaining Bureau revenue records for fees collected; preparing cash deposit slips; distributing permit renewal notices; and entering information into the City's database on fire permits. Concentration of these duties with one employee subjects the agency to the risk that abuse or theft could occur and not be detected by agency staff.

Properly designed and implemented internal controls include adequate segregation of duties to reduce the opportunities for someone to both perpetrate and conceal errors or irregularities in the normal course of performing his or her duties. Typically, an entity achieves adequate segregation of duties by establishing controls to prevent any person from having uncontrolled access to both assets and records. Inadequate internal controls increase the risk of misappropriation of funds or other abuses.

Recommendation

We recommend that the Bureau segregate the duties related to the permit fee collections from the inspection and permit functions. The Fire Department's Fiscal Office should collect the fees directly, and make the deposits with the City's Bureau of Collections. Duties related to performing inspections, issuing permits and maintaining revenue records should be performed by the Process Supervisor and other trained Bureau staff.

Finding #4

The Baltimore City Fire Department-Fire Prevention Bureau did not monitor the status of expired permits.

Analysis

The Bureau did not use available data to monitor expired permits. The Mayor's Office of Information Technology (MOIT) periodically generated permit reports from data submitted by the Bureau. The non-renewal of a permit should trigger a follow-up inspection of the property to determine the reason for its expiration. Going out of business, abandonment, or other similar reasons should result in the property being removed from the Bureau's permit listing. Otherwise, the fire inspector should indicate that the property is in violation of the Fire Code and collect the fee during the follow-up.

We reviewed a selection of 29 fiscal year 2001 expired permits to determine whether these expired permits were subsequently renewed. Using the issued permits listings and the City's database of fire permits, we determined that only six of the 29 expired permits were subsequently renewed while the remaining 23 properties were not inspected nor renewed. Consequently, these 23 properties may not be in compliance with the Baltimore City Fire Code. Such non-compliance creates safety issues, and delays or forfeiture of appropriate fee collections.

Recommendation

We recommend that the Bureau obtain monthly reports of expired permits from MOIT. We also recommend that these reports be reviewed in a timely manner and that analyses of these permits, including follow-up inspections, be performed to determine whether renewal of permits and fire inspections are necessary.

Finding #5

The Baltimore City Fire Department-Fire Prevention Bureau did not reconcile the permit and inspection fees collected to the revenue recorded in the City of Baltimore's accounting records.

Analysis

Permit and inspection fee revenue collected by the Bureau was not reconciled to revenue recorded in the City's accounting records. The City's accounting records reported that the Bureau collected fees of \$585,663.

Recommendation

We recommend that the Bureau, with the assistance of the Fire Department's Fiscal Office, reconcile its revenue records to the City's accounting records on a monthly basis and that any discrepancies be investigated and corrected.

Finding #6

The Baltimore City Fire Department-Fire Prevention Bureau prepared its accounting records related to permit and inspection fee collections manually rather than using more efficient computerized methods.

Analysis

The Bureau prepared certain accounting records (e.g., cash receipts journal) related to permit and inspection fee collections manually. The utilization of computerized spreadsheets could improve Bureau efficiency. Summary report calculations could be performed automatically for each month's activity, and balances could be forwarded to the next month's summary.

The cash receipts journal includes the date, permit number, payment reference, amount, and the property's name and address. Each month's journal averages 12-15 full pages of entries in date order. Entering this data in spreadsheet form could allow for data enhancement through sorting, totaling and other functions. These functions could provide better analysis capability for tracking whether properties have been inspected, fees have been collected, and permits issued.

The *Managing for Success* Report to the Mayor issued in July 2000 by the Greater Baltimore Committee and Presidents' Roundtable (GBC) stated that "information technology and computer utilization was sorely lacking throughout the Fire Department." The GBC report recommended that the Fire Department develop an information systems enhancement and automation plan.

Recommendation

We recommend that the Bureau automate its accounting records for permits and fee collections by using computerized spreadsheets or database files.

Finding #7

The Baltimore City Fire Department-Fire Prevention Bureau did not collect inspection fees prior to the fire inspections on a consistent basis.

Analysis

Fees were not collected prior to the fire inspections on a consistent basis. The Baltimore City Fire Code states that permits shall not be issued until the designated fees have been collected. Bureau policy requires that applicants pay the fees before fire inspections are performed. We reviewed 50 Fire Prevention Inspection Forms and determined that the Bureau performed inspections for 10 applicants prior to receiving the inspection fee payments.

Recommendation

We recommend that the Bureau collect inspection fees from the applicants prior to performing fire inspections and issuing permits, in accordance with the Baltimore City Fire Code and Bureau policy.

Finding #8

The Baltimore City Fire Department-Fire Prevention Bureau did not perform fire inspections within a timely period following receipt of the inspection fees.

Analysis

The Bureau did not consistently perform inspections within a timely period following the collection of inspection fees. We reviewed 31 renewals from approved Fire Prevention Inspection Forms and determined that for 10 of these renewals inspections were not performed within 30 days after receiving payment. The Bureau performed these ten inspections from 36 to 168 days following the fee payments. Bureau policy specifies that inspections are not to be performed until payment is received from the applicant. Therefore, the inspections should occur within a reasonable time (e.g., 30 days) following receipt of the fee payments.

Recommendation

We recommend that the Bureau perform its fire inspections within a timely period (e.g., 30 days) following the receipt of the inspection fees.

APPENDIX I

THE BALTIMORE CITY FIRE DEPARTMENT'S

RESPONSE

TO THIS AUDIT

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor



FIRE DEPARTMENT

WILLIAM J. GOODWIN, JR., Chief
414 North Calvert Street
Baltimore, Maryland 21202

December 3, 2002

Yovonda D. Brooks, CPA
City Auditor
Room 321, City Hall
100 N. Holiday Street
Baltimore, MD 21202

Dear Ms. Brooks:

I am in receipt of the Performance Audit Report for the Baltimore City Fire Department Fire Prevention Bureau, which the Audit Department completed in October, 2002 titled, "Revenues Generated Through Inspections and Permits". The audit report has been reviewed with the auditors that conducted the fieldwork and the Department concurs with your findings. The Department has or will be taking the following steps in order to comply with the recommendations as presented. They are as follows:

Audit Response:

Finding #1: The Baltimore City Fire Department will have written policies and procedures for the Fire Inspection Permits as prescribed by the Audit Report. These written procedures will describe the process and procedure fully with diagrams and examples. This information will be in compliance with all City of Baltimore regulations that insure the safeguarding of the revenue collected and deposited in a timely manner. This will be completed by 1/15/03 and will be available for review.

Finding #2: The policy and procedure on wavier of permit fees will be incorporated in the written document referred to in Finding #1. A request for wavier will be in writing and should only be authorized by the Fire Marshal and the Chief of the Fire Department designee. This will be researched as to the Bureau of Collections City of Baltimore Code of Regulations as to the types of permits that can and/or should be waived, ie. Other City Agencies, such as schools. This policy and procedure will be formalized by 1/1/03 and will be forwarded for review.

Finding #3: Adequate separation of duties has been addressed with the Fire Prevention Bureau and they are establishing modified internal controls that will enable the existing personnel to comply with this directive. Certain checks and balances have been put into place that will support the reversal of this finding and not allow any one person to have complete control over the entire operation as recommended by the Audit. The written procedures will be in place as stated above in #1 by 1/15/03.

Finding #4: The Fire Prevention Bureau has instituted steps to flag and review expired permits in a timely manner. The expired permits are inspected or trigger a follow-up inspection based on monthly reports requested from MOIT. The Bureau of Collections is also engaged in a project that may fully automate the permit process for the Fire Prevention Bureau. The Fire Marshal is working on the details of this project with Treasury Management administration presently. This practice has been changed and is in place presently.



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Yovonda Brooks, CPA
December 3, 2002
Page 2.

Finding #5: There is now a monthly reconciliation that is performed by the Fiscal Office of the Baltimore City Fire Department. A copy of the deposits are sent regularly to the Fiscal Office and are compared on a monthly basis with the City Level III accounting records. Any discrepancies are reported to the Fire Marshal for investigation and resolution. This practice was placed into service following the fieldwork done by the Audit staff.

Finding #6: As stated in Finding #4 the Fire Marshal is actively working with Treasury Management and the BCFD Information Technology staff to automate every aspect of the Fire Permit system. The Fire Department is in the process at this time of automating each firehouse, including the Fire Prevention Bureau, on the City WAN in complete cooperation with MOIT. This project should be completed by early spring of 2003. Automation now with existing capabilities, however the BCFD is deploying new software that should be in place by 3/1/03 that will enhance the Fire Prevention Bureau's ability to query the needed information. Treasury Management has sent a request to meet with BCFD on their project, which has a timeline of three years for completion.

Finding #7: The fees are requested from applicants annually, if a renewal, and are normally deposited in a timely fashion before an inspection is provided to an applicant. A new applicant is inspected and a fee is accessed based on the outcome of the fire inspection. This policy and procedure have been completed to date; however, there will always be circumstances where inspections are done before fees are paid.

Finding #8: The Baltimore City Fire Department Fire Prevention Bureau makes every effort to inspect annually the 7,200 permits that are issued. The regulation of 30 days following the receipt of should be reasonable; however, current staffing does provide certain limitations with the number of inspections and follow-up inspections that need to be completed when a default is made by an applicant for an expired permit. The Fire Marshal and Chief of the Fire Department are reviewing the current regulation and will recommend changes in the wording that will enable a reasonable time frame for the fire inspections to be performed based on the current staffing versus the number of inspections that are required annually. The outcome of this recommendation should be completed by 2/1/03 provided that current inspection personnel issues are resolved.

If there are any unresolved issues or your staff would like to review the outcome of our response to the audit, please feel free to contact Chief Theodore Saunders, Fire Marshal at 410-396-7547 or Mr. James M. Fischer, Chief of Fiscal Services at 410-396-3092.

Sincerely,

William J. Goodwin, Jr.
Chief of Fire Department

cc: Chief Antonio Thomas
Chief Theodore Saunders
James M. Fischer
Michael Maguire, Auditor Supervisor, CPA